

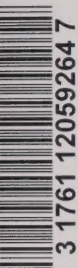
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Ministry of
Industry and
Tourism

Hon. Larry Grossman, Q.C.
Minister,
L.R. Wilson
Deputy Minister

Government
Publications




a small business development policy for Ontario

key issues and a framework
for action

A policy publication
of the Ontario Ministry of
Industry and Tourism

One of a series.



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1

A message from the
Hon. Larry Grossman,
Minister of Industry
and Tourism.



It has become almost obligatory for governments and political parties, of every ideological stripe, to speak in favour of small businesses. For years governments at all levels have designed and delivered programs specifically to support smaller enterprises.

In spite of the volume of rhetoric and number of programs that governments have devoted to "helping" small businesses, there are many who suggest that government, on the whole, has been more of a burden than a help to this critical sector of our economy.

It is essential to our overall economic development strategy in Ontario, that small businesses be encouraged to establish themselves, and to grow into larger enterprises.

Such businesses already account for 40% of total employment in Ontario. Largely Canadian-owned, they help to offset the dominance of multinational firms within our economy as they grow and increase in strength.

Traditionally, smaller enterprises have been generators of innovation, raising the level of technology throughout the economy. They have developed in response to local conditions and advantages in a way that contributes to soundly based regional growth in all parts of Ontario and of Canada.

The review of key issues affecting small businesses in the following pages is designed to provide a foundation for increased public awareness of the importance of the small business sector. It is designed to inform and support public debate and efforts to evaluate the adequacy of government programs and of the activities of key private institutions as well.

The specific initiatives identified in this paper form the framework for Ontario's own action plan. We hope the analysis presented here will also influence policies in other provinces, and at the federal level, so as to improve the climate for small business activity generally in Canada.

small business in Ontario: a key to current prosperity and future growth.

In Ontario, 97% of all businesses are small businesses. The 240,000 small businesses in the province account for 23% of our total sales, and for 40% of our total employment.

The importance of small businesses to the economy goes far beyond the obvious impact of these statistics. The small business sector has shown an outstanding capacity to identify and to carry out specialized functions that cannot be economically undertaken by other firms. The ability of smaller enterprises to respond to purely local needs or opportunities has contributed to a more balanced regional development in Ontario.

Small business is also one of the most potent factors in the "Canadianization" of the economy. As smaller, Canadian-owned firms grow and begin to compete internationally, or on a nationwide basis within Canada, they displace imports, contribute to our balance of payments, and lead naturally to a concentration of such key industrial activities as research and development and international marketing within Canada. This strengthens our industrial economy as a whole.

In terms of Ontario's immediate social and economic objectives, the fact that small business is relatively labour intensive is of primary importance. Our labour force will continue to increase more rapidly than that of virtually any other nation, leading to a persistent need for new job creation. Small business establishment and expansion will continue to be critical to our ability to generate the employment opportunities required by our population.

BASIC STATISTICS

- ☐ there are **240,000 small businesses** in Ontario*
- ☐ **97% of all businesses** in Ontario are small businesses
- ☐ small businesses account for **23% of total sales** in Ontario
- ☐ small businesses **provide 40% of total employment** in Ontario

*for the purposes of this discussion, a small business is defined as any service business with fewer than 50 employees, and any manufacturing enterprise with fewer than 100 employees.

the key issues identified

the policy requirement

Small business shares many of the same concerns and requirements of large business.

For example, small enterprises share a concern about inflation. They are sensitive to such key elements in the economic climate as tax, interest rates, and regulatory orientation.

The maintenance of adequate levels of general investment, or of research and development investment in particular, play the same important role in the life of small business enterprises.

Smaller enterprises also have a variety of special problems and limitations. These can limit the ability of small firms to take part in government programs or benefit from government services. Government measures that pose no difficulty to large enterprises can have a serious impact on smaller businesses.

Obvious examples are government programs that set, as qualifying criteria, the provision of sophisticated financial data. Large firms may routinely print out such data, or will, at least, have systems capable of doing so. The smaller firm is far less likely to be able to, except at significant additional expense.

Government programs,

services or requirements which assume a large availability of management time by enterprises are not realistic for smaller businesses. Next to money, management time is typically the most scarce resource available to the smaller enterprise.

A wide range of programs have been established by governments to provide small businesses with assistance. These programs offer a range of consulting services. Most recently, governments have developed a number of employment subsidy schemes. There are special provisions aimed at smaller enterprises in such government initiatives as investment and research and development tax credits.

It is far from certain that these programs are as effective as they could be in fostering the establishment and growth of small businesses. In fact, the whole range of government regulatory requirements could represent real hardships for small business.

Two essential policy requirements emerge from an examination of existing government programs and services for smaller businesses:

1. There is a need for improved information to ensure that smaller businesses are informed in an effective way of the

existence and application of government programs and services; and,

2. There is a need for a more focused and efficient provision of service by government to minimize such effective barriers to small business participation as excessive management time requirements.

In addition, since there is general agreement in Canada that the total burden of government costs on all parts of the community should not be increased, it is important to develop initiatives to support the establishment and growth of small businesses without substantial increases in public expenditures.

That basic fiscal reality lies at the base of a second set of policy requirements:

1. In most cases, new programs or services shall be financed by reallocation of funds from less effective existing programs or services, or through savings achieved by more efficient operations of government;
2. The overall approach to the problems of small business shall place a significant reliance on such private sector mechanisms as trade associations. This limits the demands on public resources and can help to foster increased private sector capacity; and,
3. Programs shall be applied on a targeted and selective basis, with the greatest emphasis being placed on activities that can contribute to overall economic objectives such as regional job creation, new technology development, exports or import replacement.

REQUIREMENTS FOR MORE EFFECTIVE GOVERNMENT PROGRAMS FOR SMALL BUSINESSES

1. Improved information to small business about government programs.
2. Elimination of effective barriers to small business participation, i.e. excessive management time requirements, complex filing or qualifying requirements.

On the basis of these identified issues, it is possible to identify the primary issue areas in which there is need or potential for more effective government action to facilitate the establishment and growth of small business in Ontario.

the key issues

The key issues that government can and should be addressing along with small businesses in Ontario are:

1. **management**
Next to money, management time is the most scarce resource within many small businesses. The ability of small firms to reach their potential is often hindered by a lack of management skills and experience.
2. **advocacy**
Government procedures and requirements can inadvertently act as burdens on small businesses. The lack of a clear and influential voice within government, contributes to the uncertainty of small businesses.
3. **marketing**
This is an area that is generally underdeveloped in

THE KEY ISSUES IDENTIFIED

1. Management
2. Advocacy
3. Marketing
4. Marketing to government
5. Financing
6. Manpower/labour
7. Technology

smaller enterprises, but which is key to their ability to grow into larger and more powerful economic organizations.

4. **marketing to government**
There is potential for more effective use of the purchasing power of government to enhance the ability of small businesses to be established and to grow in Ontario.
5. **financing**
The financing problems faced by smaller enterprises are aggravated by a general lack of skilled financial management, and the perceived higher risks involved in small business financial dealings.
6. **manpower/labour**
The difficulties involved in forecasting labour requirements and in recruiting appropriate skills are greatest for smaller enterprises which lack skills or resources to assign to this task.
7. **technology**
Although small businesses tend to be open to innovation, they typically lack the resources to develop and exploit technology.

The following pages set out an appropriate framework for government response in these key areas.

a framework for action: the management issue

Typically, a small business is the creation of one or two individuals with expertise in one or two clearly delineated areas. The ability of the enterprise to grow, or even to survive, may be limited by the lack of specific financial, marketing or other skills. A lack of general management ability and experience can also contribute to problems in the business.

As the enterprise grows, the nature and complexity of the problems involved in the business also increase. In many cases, the owner-manager is reluctant to share decision making. It is often difficult for the smaller enterprise to afford to hire appropriate technical or management skills.

In response to this problem, a variety of programs have been established at both the provincial and federal levels to assist established small businesses. There is a wide range of consulting services available on a one-to-one basis, provided by the provincial government.

These services are provided through its own employees, through arrangements with the business schools of universities across the province, and through cost sharing to permit the use of private consultants where appropriate. The Hamilton-Wentworth Business Council

is a community organization providing a non-profit consulting service to assist small- and medium-sized companies in overcoming manufacturing and production problems.

The field organization of the Ontario Ministry of Industry and Tourism calls regularly on smaller businesses throughout Ontario, offering the services of experienced Industrial Development Officers. The Federal Business Development Bank also provides a range of consulting and counselling services to small businesses.

There is a variety of programs and initiatives to encourage the establishment of new small enterprises. The Small Business Development Branch of the Ministry of Industry and Tourism has published a book entitled "Starting a Small Business in Ontario" and schedules "Starting a Business" seminars throughout the province. A series of brochures on specific programs is available to small business.

In short, there is a wide range of services available to small business to help deal with management problems. On the whole, the programs at both the federal and provincial level are well designed, and there appears to be little overlap or duplication.

opportunities for improvement

The Ministry of Industry and Tourism believes that the effectiveness of this package of services can be improved by:

- ☐ Ensuring that small businesses are aware of these services;
- ☐ Ensuring accessibility of these services to small enterprises in all parts of Ontario; and,
- ☐ Continued efforts to ensure efficient use of resources and to avoid confusion in the delivery of such services.

new initiatives—the management issue

To address these opportunities for increased effectiveness, the Ministry of Industry and Tourism will be undertaking the following new initiatives:

- ☐ The Ministry of Industry and Tourism will launch a major communications effort to ensure that more small businesses in Ontario are informed of the nature and availability of these government programs;
- ☐ The Ministry of Industry and Tourism will institute a series of research studies at Ontario business schools, to determine the effect of existing curriculum on the entrepreneurial spirit and the interest in small business among business students; and,
- ☐ The Ministry will fund a pilot project to provide small business with competent, professional advisors fulfilling a role similar to that of a Board of Directors. Under this project, the Ministry will provide the funds necessary for local community groups to meet on a regular basis, to

NEW INITIATIVES—THE MANAGEMENT ISSUE

- ☐ a **communications program** to ensure that small businesses have accurate information about government programs and services;
- ☐ a series of **research studies** concerning the relationships between current programs of business education and student interest in entrepreneurial and small business activity; and,
- ☐ a program of financial assistance to permit locally based firms to benefit from a **professional Board of Directors**.

provide business skills and advice similar to those provided to larger enterprises through their Boards of Directors.

The Board will provide the financial resources to encourage community-based enterprises to use a professional Board of Directors, and to benefit from the advice and counsel that such a Board can offer.

These initiatives will contribute to increased effectiveness of existing government programs and services, in dealing with the small business management issue.

a framework for action: the advocacy issue

As above, the smaller business is particularly vulnerable to adverse effects of a variety of government policies and programs. Requirements which represent no hardship for large enterprises may be major burdens for the smaller business, with its more limited resources and smaller production base.

These limited resources have also made it difficult for the small enterprise to influence the development or administration of government programs and policies.

Small businesses are affected in a similar way by the practices of such large non-government groups as chartered banks.

There has been an increase in sensitivity in recent years to the inadvertent effects on small business that public and private practices may have.

Private associations aimed specifically at voicing small business concerns to government have been organized. A variety of government agencies are assuming a responsibility for putting the small business point of view before policy makers and administrators. Increasingly, these government groups are also taking a responsibility for pointing out adverse effects upon small business of decisions

by major private institutions.

Within the Government of Ontario, the Ministry of Industry and Tourism regularly assists small business in approaching government Ministries and agencies, and private financial institutions, for assistance or for clarification of policies. At the federal level, the Small Business Secretariat acts as an advocate for the small business point of view.

The small business sector has succeeded in increasing awareness of its vulnerability to government, and to the actions and policies of larger private institutions.

opportunities for improvement

The advocacy function can, however, be more effectively performed by:

- ☐ Formal establishment of a small business advocacy responsibility within governments;
- ☐ More effective exchange of information between governments and large private institutions who can have a major impact on small business; and,
- ☐ More formal and effective relationships between government agencies with established advocacy responsibilities, and private business associations.

new initiatives— the advocacy issue

To address these opportunities for more effective advocacy, the Ministry of Industry and Tourism will be undertaking the following new initiatives:

- ☐ The Ministry of Industry and Tourism will formalize and promote its role as an advocate for small business within and between governments, and in relation to selected private sector institutions;
- ☐ To ensure more effective communication between governments, the Minister of Industry and Tourism will prepare and submit an annual report to the federal government, outlining Ontario's concerns, and recommending directions for programs, services, and policies with respect to small business at the federal level over the coming year;
- ☐ The Minister of Industry and Tourism will submit an annual report to the Ontario legislature which will include:
 - a report on progress in assisting small business
 - new program and policy initiatives required
 - an assessment of the share of Ontario Government purchases going to small business; and,
- ☐ The Ministry of Industry and Tourism will establish formal linkages with business groups, federal small business officials, and others to ensure that the views of Ontario's entrepreneurs are considered by all of these elements.

NEW INITIATIVES—THE ADVOCACY ISSUE

- ☐ **formal** recognition of the Ministry of Industry and Tourism's role as an **advocate for small business**;
- ☐ preparation of an **annual report on small business issues to the federal government**;
- ☐ preparation of an **annual report to the Ontario legislature** on small business issues; and,
- ☐ the establishment of **formal linkages** with business groups and others involved in small business issues.

a framework for action: the marketing issue

There is a variety of specific weaknesses in the marketing activity of small businesses in Ontario, including:

- ☐ Small manufacturers rarely differentiate between sales activity and marketing activity and planning.
- ☐ Small business does not normally know how to locate qualified marketing help.
- ☐ Cash flow problems may limit the ability of small business to undertake marketing activity.
- ☐ Marketing talent tends to go to large firms and to middlemen organizations, rather than to small business.

Small, Canadian-owned businesses also face problems of market access, even with respect to the Canadian domestic market. The sourcing policies of some multinational companies favour imported components. There are also interprovincial barriers to trade, including provincial government sourcing policies which may discriminate against or exclude entirely goods manufactured in Ontario.

A number of programs already exist, both at the provincial and federal level, to address the marketing problems of small businesses. These include consulting services, workshops and seminars offered by both levels of government.

The Shop Canadian program is designed to promote public awareness of

the importance of supporting Canadian manufactured products. In addition, there is a variety of programs and services available to small manufacturers seeking to develop export markets, including business development missions, trade shows, and some forms of export financing.

opportunities for improvement

The existing network of government responses to the marketing issue could be improved by:

- ☐ A more direct response to the fact that many small businesses lack the resources to undertake marketing activity or prepare marketing materials;
- ☐ Improved levels of consulting services to small manufacturers;
- ☐ More government support for co-operative activity among small businesses; and,
- ☐ Efforts to enlist the support of other governments and of multinationals in addressing problems of domestic market access.

new initiatives – the marketing issue

To address these opportunities, the Ministry of Industry and Tourism will be undertaking the following new initiatives:

- ☐ The Ministry will develop a program of financial assistance to support the preparation of promotional marketing materials such as brochures. Small

businesses having a product that is unique, or which has export potential or import replacement potential, will be eligible for this program;

- ☐ The Ministry will increase the level of marketing consulting services to assist small manufacturers with comprehensive marketing plans, and to improve marketing management skills;
- ☐ The Ministry will develop an educational program, focusing on specific marketing techniques, and one-on-one workshop consultations;
- ☐ The Ministry will encourage the formation of consortia where this is advantageous; and,
- ☐ The Ministry will contact multinational firms, and other Canadian governments, to negotiate specific programs and agreements for the development of additional Canadian suppliers.

NEW INITIATIVES—THE MARKETING ISSUE

- ☐ financial assistance for the preparation of **marketing materials** by small businesses;
- ☐ increased consulting services in development of **comprehensive marketing plans**;
- ☐ an **educational program** focusing on specific techniques;
- ☐ support for **consortia** formation; and,
- ☐ contact with **multinationals and other governments** to encourage additional purchases from small business.

a framework for action: the marketing to Government issue

Although it is estimated that small businesses supply over 50% of the total goods and services purchased by the Government of Ontario, in many cases complex government purchasing procedures represent excessive cost-of-sales for small businesses. It is difficult for small enterprises to obtain information about potential government purchases. The chronic problem of slow payment by government discourages small businesses which have limited cash resources.

In addition, there are a variety of purely provincial purchasing preferences that effectively exclude businesses from one province bidding on government purchases in another.

Ontario has established a clear policy of preference for Canadian-made goods, as distinct from goods originating in Ontario alone, in its own purchases. In addition, there is growing awareness of the potential of government purchasing policy for encouraging the development and growth of small businesses across Canada.

opportunities for improvement

The effectiveness of government purchasing support for small businesses in Ontario,

and across Canada, can be improved by:

- ☐ The development of simplified and standardized purchasing and documentation procedures within and among governments;
- ☐ Improved dissemination of information to the business community on the purchasing requirements and procedures of government;
- ☐ The development of better data on the purchasing activities and effectiveness of purchasing policies in Ontario and on a nation-wide basis; and,
- ☐ The development of a clear means of recourse, which small suppliers could use for complaints and suggestions with respect to selling to the Ontario government and its agencies, boards and commissions.

new initiatives – the marketing to government issue

In order to address these opportunities for increased effectiveness, the Ministry of Industry and Tourism will be undertaking the following new initiatives:

- ☐ The formal designation of government procurement as a key area for small business advocacy on the part of the Ministry of Industry and Tourism. The emphasis will be on:
 - (a) the development of improved data on government purchases.
 - (b) reductions in the “red tape” encountered by suppliers to the government.
 - (c) the encouragement of the payment of interest on overdue accounts with suppliers by the Ontario government.

(d) other governments will be encouraged to follow suit.

- ☐ The Ministry will present an annual small business report to the Ontario legislature, which will include information on the share of government procurement going to small business.
- ☐ The Ministry will evaluate the effectiveness of existing Canadian preferences, and give consideration to additional incentives for proposals which involve technical innovation.
- ☐ The Ministry will provide the business community with information on selling to the public sector, including all levels of government, all agencies, boards and commissions, and other entities such as hospitals, school boards, etc.
- ☐ The Ministry of Industry and Tourism will contact other ministries in an effort to develop standardized purchasing procedures and policies on as wide a scale as possible.

NEW INITIATIVES—THE MARKETING TO GOVERNMENT ISSUE

- ☐ formal advocacy to ensure **fair treatment with respect to government procurement** for small businesses;
- ☐ preparation of an **annual report to the Ontario legislature** on the share of government purchases going to small businesses;
- ☐ **evaluation** of the existing Canadian preference and **recommendations for changes;**
- ☐ **provision of information** to the business community, with respect to selling to the public sector; and,
- ☐ **contact with other ministries** and government agencies to encourage **the standardization of procedures and policies.**

a framework for action: the financing issue

Small business in Ontario faces a variety of financing problems: lack of financial management expertise; chronic cash flow problems; heavy reliance on external financing; difficulties in meeting the filing, documentation, and collateral requirements of lending institutions; and a lack of knowledge of available sources of funds.

Both the provincial and federal governments offer a range of financial consulting services to the small business. Ontario utilizes a computer planning model, with related consulting services, to help small businesses raise needed financing in the private and public sectors. Direct assistance is provided in preparing projected financial reports. Companies are also introduced to the techniques of financial planning.

Ontario makes loans to small business through the Ontario Development Corporation, the Northern Ontario Development Corporation and the Eastern Ontario Development Corporation. The mandate of the Development Corporations is to provide loans to underwrite sound development or expansion proposals by small business where funds are not available, or not available at reasonable cost, through private institu-

tions. The Development Corporations also provide term loans and bank guarantees.

This kind of support is especially important for firms in areas remote from financial centres, for young high technology companies with no proven track record, and for well managed firms with inadequate collateral.

The federal government makes loans directly to small business through the Federal Business Development Bank, and provides a program of loan guarantees to commercial lending institutions through the Small Business Loans Act.

There is also a variety of financial incentives provided at the provincial level. The Ontario Business Incentives Program offers specific incentives to encourage the establishment of new manufacturing enterprises and the expansion of existing industries in Ontario. The Small Business Development Corporations program, established by the Ontario Government, offers an attractive incentive through grants and tax credits to encourage additional equity investment in small business and to assist the small businessman by increasing the availability of managerial advice and expertise.

The inability to raise

equity or venture capital, and the resultant heavy dependence by small business on debt financing, have been aggravated by a variety of federal government measures in recent years. The introduction of capital gains taxation, of the Foreign Investment Review Agency, and of tax shelters such as Registered Retirement Savings Plans which are attractive forms of investment for the individual, have adversely affected the flow of funds to high risk ventures. At the same time, the stock market for secondary issues has been virtually eliminated, closing one more avenue of equity financing for small business.

Ontario's Small Business Development Corporations legislation, and the Sodeq legislation in Quebec, are specifically designed to counteract these deterrents. The initial response to the Small Business Development Corporations legislation has been favourable. Much interest in the formation of private sector pools of venture capital has been shown, several Small Business Development Corporations have been formed, and small business is enjoying the increased availability of capital.

In summary, there has been a variety of useful steps taken by the government in

NEW INITIATIVES—THE FINANCING ISSUE

- ☐ information to permit **equity capital requirements to be matched** with registered SBDCs;
- ☐ increased **financial planning assistance**; and,
- ☐ efforts to persuade the federal government to **liberalize tax treatment of SBDCs**.

recent years, but small business continues to suffer from a shortage of financial expertise, excessive reliance on debt financing, and a range of other financing problems.

opportunities for improvement

The effectiveness of government to the financing problems of small business can be improved by:

- ☐ More effective initiatives to match small business equity capital requirements with Small Business Development Corporations;
- ☐ Additional assistance to small enterprises in preparing presentations for financial assistance from the public or private sector; and,
- ☐ Federal action, such as that proposed in the December, 1979 Budget to encourage equity investment, re-evaluate capital gains taxation and reinforce provincial initiatives aimed at increasing the availability of risk capital for small business (e.g. SBDCs).

new initiatives—the financing issue

To address these opportunities for increased effectiveness, the Ministry of Industry and Tourism will undertake the following new initiatives:

- ☐ The Ministry will provide current information on all registered SBDC's to the Ministry field office, so field consultants can match client equity capital requirements with available sources of SBDC financing.
- ☐ The Ministry will increase the resources available to operate the computer financial planning model to help more small businesses prepare presentations for financial assistance, and conduct professional financial planning.
- ☐ Efforts will be made to ensure re-introduction of measures at the federal level to encourage and complement provincial equity investment initiatives.

a framework for action: the manpower/labour issue

As manufacturing in Ontario increasingly expands into more sophisticated areas requiring more skills and technically experienced personnel, we are facing serious shortages of certain skills.

This skill shortage is preventing many smaller Canadian manufacturers from reaching their potential. The shortage makes it difficult for employers to introduce apprenticeship training, because they need all the time of the skilled employees that they do have, to undertake normal production.

Small businesses are particularly affected by this shortage and by the fact that they lack the resources to undertake sophisticated recruitment programs.

The Ministry of Industry and Tourism has created an Employers Skill Search Service, to help Ontario businesses. The service provides companies with a global analysis of where needed skills can be found, and acts as a catalyst in recruiting such people. This assistance is available only where the jobs cannot be filled locally, where the recruitment of additional skills will improve production and create increased employment opportunities for lesser skilled workers, and where it will permit the enterprise to

expand existing apprenticeship or industrial training programs.

This service is provided in co-operation with the Ontario Ministries of Labour and Education, and the Canada Employment and Immigration Commission. The Ministry has also been working to provide businessmen with better information on the variety of programs that do exist in the training area.

opportunities for improvement

The manpower/labour problems faced by small business can be more effectively addressed by:

- ☐ Providing improved information to small business on the variety of government manpower, labour and training programs; and,
- ☐ Providing superior information to businessmen as to manpower trends to support business planning.

new initiatives— the manpower/labour issue

To address these opportunities for increased effectiveness, the Ministry of Industry and Tourism will be undertaking the following new initiatives:

- ☐ The Ministry will improve methods for dealing with skill shortages;
- ☐ Through its field organization, the Ministry will both provide improved information on assistance and industrial training programs, and obtain more hard-core data from industry; and,
- ☐ The Ministry will work to improve communications with, and co-operation among, the Ministries of Industry and Tourism, Labour, and Education, and the Canada Employment and Immigration Commission.

NEW INITIATIVES—THE MANPOWER/LABOUR ISSUE

- ☐ **identification of trends, and communication of information** to appropriate government agencies and the private sector;
- ☐ **provision of information concerning manpower assistance and training programs** through the field organization; and,
- ☐ **co-operation with other agencies** to address problems of small business.

a framework for action: the technology issue

Throughout the 1980s, as Canadian industry faces new competitive pressures, the bringing of new products and processes to market will play an increasingly important role in our ability to compete. Small- and medium-sized Canadian-owned enterprises will have a crucial role to play in the innovation process. They are less constrained by world-wide corporate behavior patterns, and tend to be more flexible in adapting to emerging trends.

To date, however, the innovative activity by smaller businesses has been limited by a number of factors: shortage of resources; an excessive reliance on licencing requirements as opposed to independent technology development; and an inability to attract appropriately skilled R&D people.

Both the provincial and federal governments have established a variety of programs to assist and encourage small business innovation. Such programs are designed to share costs and resources of small enterprises to undertake R&D activity. There is, in addition, a variety of tax incentives available. Proposals to increase R&D investment tax credits from 5% to 10% for larger firms, and to 25% for smaller firms, were proposed

in recent budgets, but stalled by recent federal elections.

The effectiveness of the incentives are limited in the case of smaller businesses which face cash flow problems and which, at least in their early stages of growth, have limited taxable income. For these reasons, Ontario will continue to urge the federal government to:

- ☐ Make credits refundable where they exceed taxable income; and,
- ☐ Relax restrictions in section 125 of the Income Tax Act for R&D purposes, and make the credit available for a defined period of time.*

The Ministry of Industry and Tourism also believes that smaller businesses can benefit from improved technology transfer processes. To promote improved productivity through available technology, Ontario offers:

- ☐ A consulting service to small manufacturers, making the advice of experienced industrial engineers available on an individual basis; and,
- ☐ Ontario Research Foundation assistance to small business in the development of new products and processes.

*Under the proposals in the Spring 1979 Federal Budget, once a company reached the accumulated earnings limit under section 125 of \$750,000, it would no longer qualify for the 25% credit. The credit would revert to 10%, despite the fact that it is unlikely that the firm's R&D operations would be firmly established by that point. This would represent a disincentive to growth for the smaller firm.

In addition, the National Research Council's Technical Information Service provides manufacturers with direct access to current technology for the solution of industrial problems.

opportunities for improvement

Although there is already a large number of programs, the effectiveness of overall efforts to support innovation and technology transfer among small enterprises could be improved by:

- ☐ Increases in the financial resources directly available to smaller business to permit them to mount R&D efforts; and,
- ☐ Improvements in the incentives for innovation of the kind outlined above.

new initiatives—the technology issue

To address these opportunities for increased effectiveness, the Ministry of Industry and Tourism will undertake the following:

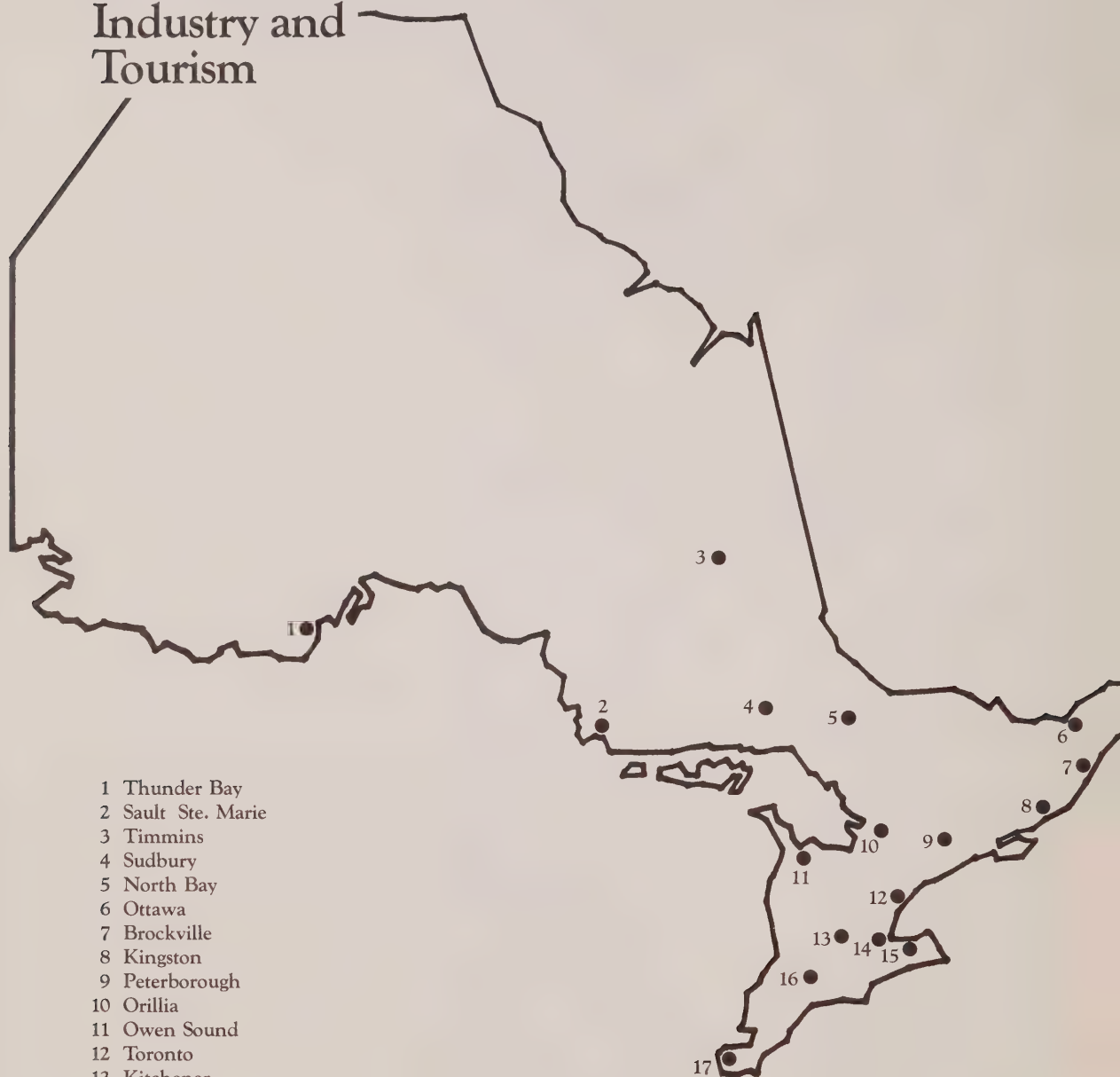
- ☐ The Ministry will increase the resources available to small businesses for product development and innovation, through the establishment of a financial assistance arrangement for product development work performed by the Ontario Research Foundation and other organizations approved by the ORF. Unique products with export or import replacement potential will qualify; and,
- ☐ The Ministry of Industry and Tourism will initiate new discussions with the federal

NEW INITIATIVES—THE TECHNOLOGY ISSUE

- ☐ **financial assistance** for small enterprise R&D at Ontario Research Foundation or ORF-approved organization; and,
- ☐ efforts to persuade the federal government to adopt **increased tax incentives for small business R&D**.

government to express once again Ontario's support for improvements in the R&D incentives for smaller businesses, and to urge the kinds of improvements described here.

The offices and regional organization of the Ministry of Industry and Tourism



Toronto

Suite 480
5 Fairview Mall Drive
Willowdale, M2J 2Z1
(416) 491-7680

Peterborough

139 George Street N.
Peterborough, K9J 3G6
(705) 742-3459

Orillia

Sterling Trust Building
2nd Floor, Box 488
73 Mississaga St. E.
Orillia, L3V 6K2
(705) 325-1363

Kitchener

305 King Street W.
Suite 507, 5th Floor
Kitchener, N2G 1B9
(519) 744-6391

St. Catharines

Suite 401, 4th Floor
15 Church Street
St. Catharines, L2R 3B4
(416) 684-2345

Hamilton

20 Hughson Street S.
Suite 601, 6th Floor
Hamilton, L8N 2A1
(416) 527-3194

Ottawa

Suite 404
56 Sparks St.
Ottawa, K1P 5A9
(613) 566-3703

Brockville

143 Parkedale Avenue
Brockville, K6V 6B2
(613) 342-5522

Kingston

Suite 308
1055 Princess Street
Kingston, K7L 5T3
(613) 546-1191

Sudbury

767 Barrydowne Road
Sudbury, P3A 3T6
(705) 560-1330

North Bay

Northgate Plaza
1500 Fisher Street
North Bay, P1B 2H3
(705) 472-9660

Timmins

Suite 200
273 Third Avenue
Timmins, P4N 1E2
(705) 264-5393

Sault Ste. Marie

120 Huron Street
Sault Ste. Marie, P6A 5N7
(705) 253-1103

Thunder Bay

Ontario Government Building
Box 5000, 3rd Floor
435 James Street South
Thunder Bay, P7C 5G6
(807) 475-1325

London

Suite 607
195 Dufferin Avenue
London, N6A 1K7
(519) 433-8105

Owen Sound

Nor-Towne Plaza, Suite 104
1131 Second Avenue E.
Owen Sound, N4K 2J1
(519) 376-3875

Windsor

New Consolidated Building
250 Windsor Avenue
Room 227
Windsor, N9A 6V9
(519) 252-3475

